

WASHINGTON (April 20) – Congressman Spencer Bachus (AL-6) today said that regulatory failures exposed by a report on the Lehman Brothers bankruptcy provide further evidence that the Federal Reserve and Securities and Exchange Commission should not be rewarded with even more power in a financial regulatory bill.

Bachus, who is Ranking Member on the Financial Services Committee, made the following statement at a Financial Services Committee hearing that he requested on a report detailing the demise of the investment bank. Treasury Secretary Timothy Geithner and Federal Reserve Chairman Ben Bernanke testified at the hearing.

***“In response to disturbing revelations of accounting manipulations revealed by the Lehman bankruptcy examiner last month, I called upon Chairman Frank to hold this hearing, and I want to thank him for promptly responding to my request.”***

***“One has to ask the question: ‘Was Lehman too big or too interconnected to blow the whistle on?’”***

***“The court-appointed bankruptcy examiner, Anton Valukas, has provided us with an exhaustive report on Lehman’s actions and the regulators failures in that critical period between the rescue of Bear Stearns and Lehman’s bankruptcy. As we consider how to reform our financial regulatory system, his report serves as both a case study and a cautionary tale of what can only be described as a gross regulatory failure. The regulations and powers needed to address the misconduct were in place. They simply were not utilized.”***

***“When Mr. Valukas released his report, he unveiled a troubling narrative that many had suspected, but did not know to be the case. The report found that Lehman engaged in materially misleading accounting and balance sheet manipulation. Had there not been a bankruptcy and had Mr. Valukas not conducted his report, the acquiescence of the Fed and SEC in Lehman’s misrepresentations would have been swept under the rug and the***

*American people and investors kept in the dark.□ □ □*

*“But far more disturbing than the material accounting irregularities at Lehman were the actions or inactions of the regulators – the New York Federal Reserve Bank and the Securities and Exchange Commission – who were on-site at Lehman and had every opportunity and responsibility to observe the actions painstakingly described in Mr. Valukas’s report.□*

*“The Valukas report shows that, at best, the regulators failed to catch an accounting manipulation that permitted Lehman to give a misleading picture of its financial health to its investors, its creditors, the rating agencies, and the financial markets.□ As a result, what would have been a bad situation – the failure of one of the nation’s largest investment banks – was made far, far worse by the Fed’s failure to plan and coordinate the response to Lehman’s certain collapse.□ □ □*

*“These regulators failed to share information with each other about Lehman’s deteriorating liquidity position, and they failed to force Lehman to disclose that it was far less liquid than it was reporting itself to be.□ □ □*

*“The New York Fed and the SEC administered three stress tests to Lehman, and Lehman failed them all.□ This alone is concrete evidence of the complicity of the Federal Reserve in the material misrepresentation of Lehman’s financial condition.□ The regulators did not require Lehman to do anything in response to these failures.□ And they failed to disclose these failures to the financial markets.□*

*“The regulatory proposals that have been offered by this Administration and are now being considered by Congress double down on the same policies, the same regulators, and in some cases, the same individuals, that failed us two years ago, and that made Lehman’s collapse far more damaging than it should have been.□ □ Lehman is gone, but the failures of the Fed and SEC are still with us, and should not be rewarded with new regulatory powers.”*

[Click here](#) to view Congressman Bachus' opening statement

[Click here](#) to view Congressman Bachus on CNBC discussing Lehman bankruptcy report and financial regulatory reform